Market Expectations Survey

September 18, 2023

- **The current UAW strike is relatively small and will have minimal impact on the overall economy, even if it lasts for a few weeks.**

- **A broader strike, affecting more of the industry, would be a much more significant drag on employment, consumer spending, and GDP.**

- **An extended auto strike could lead to higher inflation and lead the Federal Reserve to raise interest rates. A big new contract could also be inflationary.**

The near-term impact of the ongoing UAW strike against the three big U.S.-based automakers will be small, at least for now. Currently about 14,000 autoworkers are on strike against one auto assembly plant each for GM, Ford, and Stellantis. This is only about 10% of the entire UAW workforce for the Big Three automakers, and only about 1% of total US employment in auto and parts manufacturing. The autos that the affected plants assemble are not big sellers, and there are still 22 Big Three-owned assembly plants that remain open. Thus the impact from the current strike activity on the monthly job numbers or quarterly GDP numbers would be negligible, even if the strike lasts for a few weeks. PNC will not make any changes to the current baseline forecast based on current strike activity. The current strike could have a modest negative impact on the local economies where the plants are located (Missouri, Michigan, and Ohio).

The bigger impact would come if the UAW starts to target more plants. Strikes that target parts plants would quickly shut down assembly plants due to lack of inputs. The hits to employment and output would be much larger. The Big Three make up a little less than one-half of U.S. auto market share, auto sales (including foreign brands) make up about 3% of US GDP, and motor vehicle and parts production makes up about 0.7% of total employment and 0.4% of total personal income. So, a broad, extended strike would become a significant drag on GDP, employment, and incomes. Although foreign manufacturers could fill some of the demand, and some of the drop in auto spending would move to areas, reduced spending by striking workers would be another drag on GDP.

A broad, extended UAW strike would also cause headaches for the Federal Reserve's fight against high inflation. According to Cox Automotive, auto dealers held about 58 days of supply at the beginning of September, a little below the normal 60-day supply. Dealers have been building inventories ahead of a potential strike, after they fell sharply following the supply-chain problems (especially around semiconductors) after the pandemic. But an extensive strike would once again deplete inventories and give new auto dealers (of all brands, domestic and foreign) more pricing power. An extended strike would also push up prices of used cars, which would be a substitute for unavailable new cars. Consumer price index inflation for new and used vehicles surged to above 20% year-over-year in early 2022 due to shortages of both new and used cars. But as production has recovered prices in August 2023 were actually down slightly from one year ago, although they remained well above their pre-pandemic levels.

The slowing in vehicle inflation has been a big contributor to the slowing in overall inflation over the past year. But an extended strike that reduced supplies of new vehicles and boosted demand for used vehicles could cause a rapid runup in vehicle prices and push overall inflation back up. This could lead the Federal Reserve to raise the fed funds rate later this year to reduce overall demand in the U.S. economy, increasing the risk of recession in 2024. In addition, big wage increases in a new UAW contract could also add to inflationary pressures in the U.S. economy over the next few years, supporting tighter monetary policy.

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Action Economics Survey	Range	Median	Last Actual	PNC's Comment
Fed Funds Rate Target Range Mid-Point (after the FOMC meeting on 9/20/23)	5.38-5.38%	5.38%	5.38%	We expect the FOMC to maintain their 5.25-5.50% target range for the funds rate at their meeting on 9/20. It will remain there until a series of rate cuts start next spring.
Aug Housing Starts (9/19, Tuesday)	1.375-1.470M	1.430M	1.452M (July)	Up slightly to 1.46 million. Building permits should also rise slightly to 1.47 million.
Initial Claims, Wk of 9/16/23 (9/21, Thursday)	220K to 230K	225K	220K (9/9/23)	Up to 225K.
Aug Leading Indicators (9/21, Thursday)	-0.6 to -0.2%	-0.5%	-0.4% (July)	Down 0.3%.
Aug Existing Home Sales (9/21, Thursday)	4.05–4.20M	4.100M	4.070M (July)	Up to 4.20 million.
Sept Consumer Confidence (9/26, Tuesday)	103.9 to 107.0	106.9	106.1 (Aug)	Down to 104.5.
Aug New Home Sales (9/26, Tuesday)	0.690-0.730M	0.700M	0.714M (July)	Up to 0.730 million.
Aug Durable Goods Orders (9/27, Wednesday)	-2.0 to 1.0%	-0.5%	-5.2% (July)	Up 0.8%. Shipments up 0.7%.

Action Economics Survey	Range	Median	Last Actual	PNC's Comment
Q2 GDP Third Report (9/28, Thursday)	2.0-3.2%	2.4%	2.1% (Q2 2nd Report)	Revised down to 2.0%.
Q2 Chain Price Index Third Report (9/28, Thursday)	2.0-2.2%	2.0%	2.0% (Q2 2nd Report)	Unrevised at 2.0%.
Aug Advance Trade in Goods (9/29, Friday)	-$93.5 to -$90.0	-$91.1	-$90.9 (July)	A widening to -$93.5 billion on higher imported oil prices.
Aug Personal Income (9/29, Friday)	0.4-0.7%	0.5%	0.2% (July)	Up 0.5%.
Aug Personal Consumption Expend. (9/29, Friday)	0.2-0.7%	0.4%	0.8% (July)	Up 0.4%. The PCED headline is up 0.5% which lifts the Y/Y rise to 3.5% (from 3.3% in July). The PCED core is up 0.2% and the Y/Y declines to 3.9% (from 4.3% in July).
Sept U. Mich. Consumer Sentiment (final) (9/29, Friday)	67.7-70.3	67.7	67.7 (Sept. prelim)	Down to 67.2 as higher gasoline prices reduce sentiment.

Monthly Calendar of Economic Data: Sept 2023

Sept 19

	Housing (000)	
	Starts	Permits
June	1.398	1.441
July	1.452	1.443
Aug		

Sept 21

Current Account	
Q1'2022	-$247.0
Q2'2022	-$244.9
Q3'2022	-$254.6
Q4'2022	-$204.3
Q1'2023	-$194.9
Q2'2023	

Unemployment Claims (000)				
May	June	July	Aug	Sept
231	262	249	250	217
225	264	237	240	220
230	265	228	232	
233	236	221	229	
		227		

Existing Home Sales (000)	
June	4.160
July	4.070
Aug	

Leading Indicators	
June	-0.7
July	-0.4
Aug	

Sept 26

	CB Consumer Confidence		
	Total	Current	Expect
July	114.0	153.0	88.0
Aug	106.1	144.8	80.2
Sept			

New Home Sales	
June	684
July	714
Aug	

Sept 27

	Durable Goods	
	Total	Ex-Transp.
June	4.4	0.2
July	-5.2	0.5
Aug		

Sept 28

Gross Domestic Product		
2nd Qtr (3rd estimate)		
	Real GDP	Price Index
Q4'22	2.6	3.9
Q1'23	2.0	4.1
Q2'23(1st)	2.4	2.2
Q2'23(2nd)	2.1	2.0
Q2'23(3rd)		

Sept 29

	Personal	
	Income	Spending
June	0.3	0.6
July	0.2	0.8
Aug		

Sept Chicago PMI
Sept U. Mich. Consumer Sentiment (final)

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